HOUSING MARKET OUTLOOK

St. John's - Date Released: Fall 2006

Housing Demand Will Continue to Cool in 2007

Several consecutive interest rate hikes, rising new home construction costs and below average income growth will continue to gradually cool home ownership demand, as well as the renovation sector in 2007. With a variety of housing-related costs continuing to escalate, both buyer price sensitivity and affordability have become driving forces across all segments of the local housing market. Accordingly, the overall level of housing activity will trend lower as higher mortgage carrying costs, due to historically strong house price growth and modest increases in mortgage rates, continue to ease the demand for both new and existing homes.

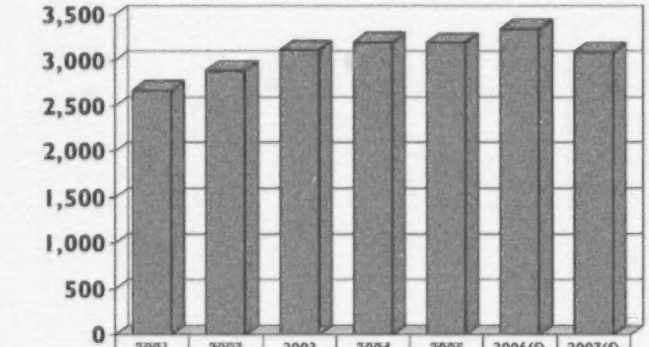
RESALE MARKET

MLS® Sales Begin to Retreat

After posting record sales for six years and remaining flat last year, the local resale market has hit a turning point and is expected to gradually edge lower in 2007. Accordingly, our forecast calls for MLS® sales reported through the Newfoundland and Labrador Association of Realtors® (NLAR®) to decline 7.5 per cent to 3,100 units in 2007. With many new home sales now going through MLS®, the downward trend in housing starts will have a negative impact on MLS® sales over the forecast period. The surge in active listings during 2006 has provided much more choice in the marketplace and lured buyers away from the higher priced new home market. This is viewed as a key reason behind the healthy level of MLS® sales posted to date.

MLS® Sales Begin to Retreat

MLS® Sales - St. John's and Area



	2001	2002	2003	2004	2005	2006(f)	2007(f)
MLS® Sales	2,675	2,893	3,119	3,203	3,196	3,350	3,100

Source: Newfoundland and Labrador Association of Realtors® (NLAR®), CMHC forecast

Buyers Market Conditions Continue

After three years of sellers market conditions in the St. John's region, the resale market became balanced in mid-2005, as strong sales activity was offset by a steady climb in active listings. The market remained balanced throughout the first quarter of 2006. However, the recent surge in active listings has driven the sales to active listings ratio down to its lowest level since 1999. Accordingly, the St. John's resale market is now classified since mid-2006 as buyers. With the market over-supplied, home buyers now have a much broader choice than in previous years. As a result, the average time on market has increased and price growth has been non-existent

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during 2006. Realtors will likely find deals more difficult to close as buyers' and sellers' price expectations grow further apart, due to increased buyer price sensitivity. Home buying demand is expected to slow somewhat, while listings will remain high over the forecast period as sellers attempt to capitalize on equity gains. Accordingly, the local resale market should remain classified as buyers throughout 2007.

Price Gains Restrained due to Buyers Market

With the market classified as buyers since mid-2006, expect to see limited price growth in 2007. Our average existing house price is forecast to increase 1.5 per cent to $143,742 in 2007. Despite move-up buyers remaining active, two story homes will experience limited price growth. The rising cost of home ownership vis-à-vis higher mortgage carrying costs and energy costs, will likely lead to reduced demand from first-time home buyers in 2007. As a result, demand for bungalows will ease somewhat and price growth will be restrained compared to the levels experienced in previous years. Based on our benchmark house price survey, price growth for both two-story and bungalow dwellings is forecast to be on par with our average existing MLS® house price forecast of 1.5 per cent growth.

Price Gains Restrained due to Buyers Market

Bungalow

	July 2004	July 2005	July 2006	July 2007(f)
St. John's East	$161,000	$170,000	$170,000	$172,500
St. John's West	$155,000	$165,000	$165,000	$167,500
Mount Pearl	$152,000	$162,000	$162,000	$164,500

Two Storey

	July 2004	July 2005	July 2006	July 2007(f)
St. John's East	$220,000	$243,000	$243,000	$246,500
St. John's West	$212,000	$235,000	$235,000	$238,500
Mount Pearl	$220,000	$236,000	$236,000	$239,500

Source: CMHC Benchmark House Price Survey.

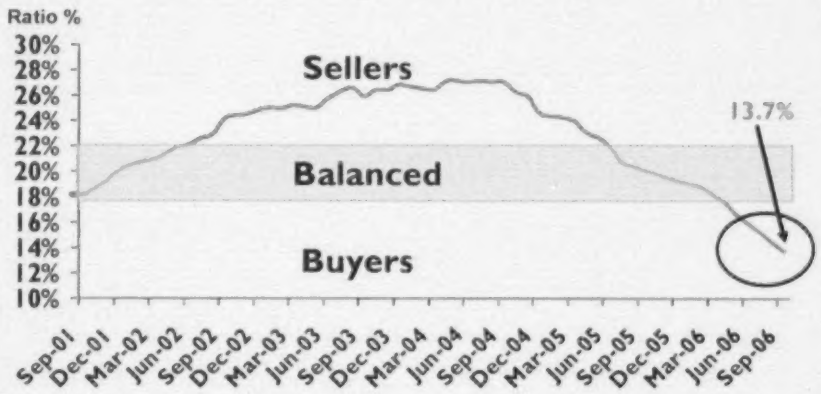
NEW HOME MARKET

Housing Starts Activity Continues to Slow

On-going population losses and higher interest rates will cause domestic housing demand to continue to slow in 2007. Accordingly, total provincial housing starts will decline to 2,150 units, or down 2.9 per cent. Economic conditions within the St. John's region will remain favourable, but not as strong as in recent years. An expected decline in overall home buying demand will serve to reduce residential construction activity within the region. Flat price growth, combined with higher land, labour and material costs, and higher mortgage rates will result in further gains in monthly home ownership costs and prevent some potential buyers from entering the market. As home demand eases, heightened competition from an ever-expanding inventory of less expensive existing homes will also restrain housing starts over the forecast period. Accordingly, total housing starts will decline to 1,300 units within the St. John's region in 2007.

Buyers Market Conditions Continue

Sales to Active Listings Ratio Trend - St. John's and Area



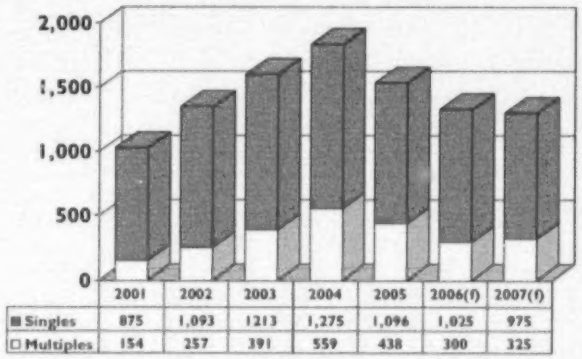
Source: Newfoundland and Labrador Association of Realtors® (NLAR®), CMHC forecast

Modest Increase in Multiple Starts Activity

Multiple housing starts will increase modestly in 2007, mainly due to higher numbers of condominium

starts, as well as an increase in affordable housing projects. Positive net-migration to the St. John's region, smaller household structures, an aging population, and increased economic activity and employment will support higher condo starts in 2007, as demand increases and current inventories get absorbed. The general reduction in home buying demand will limit any growth in semi-detached starts during 2007. In 2004 there was a four-fold increase in semi-detached starts, followed by a 45 per cent reduction in 2005. Much of the pent-up demand for this product was met and we are now seeing a retraction in semi-detached starts. However, new lower-priced semi-detached units will always remain attractive provided that new single-detached prices remain high and/or continue to climb over the forecast period. Multiple housing starts will increase 8.3 per cent to 325 units in 2007.

Housing Starts Activity Continues to Slow



	2001	2002	2003	2004	2005	2006(f)	2007(f)
Singles	875	1,093	1213	1,275	1,096	1,025	975
Multiples	154	257	391	559	438	300	325

Source: CMHC Forecast 2006, 2007.

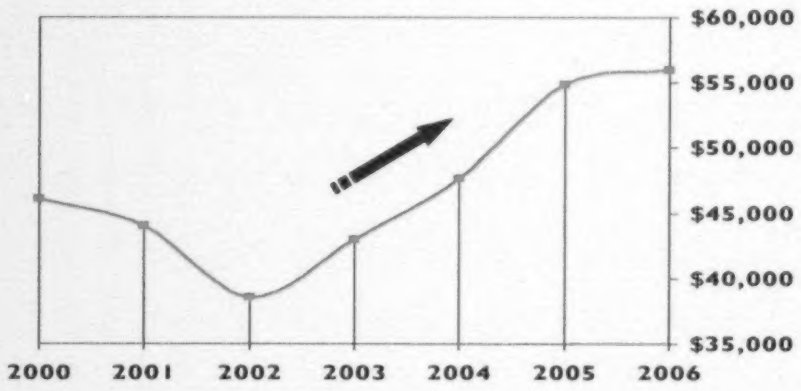
RENTAL MARKET

Vacancy Rate Remains Stable

Several factors will keep the vacancy rate relatively stable over the next 12 to 24 months. The movement of renter households to home ownership will continue, but at a slower pace, as home ownership costs increase. Youth (age 18-24) net-migration losses will continue to have a negative impact, as 90 per cent of this demographic group are renter households. Demand for basement apartments in new single-detached homes to meet home-buyer affordability requirements will continue to compete with and affect the performance of larger rental projects. Public sector (CMHC & NL Housing Corporation) investment in affordable rental housing will increase supply in 2007. Accordingly, the vacancy rate for private structures containing three or more units is forecast to remain at 5 per cent in 2007. Although the vacancy rate will hold steady, expect monthly rents to increase in the 3 to 5 per cent range next year as landlords attempt to recover the large investment associated with significant renovation to the rental stock in recent years.

Price Difference Slowing in St. John's Area

New Single-detached Absorbed vs. Average MLS® Price



Source: CMHC, CREA
Note: Single-Detached consists of Bungalow, Split Level, 1.5 Storey, and 2 Story dwellings.

St. John's Metropolitan Area
Fall 2006

RESALE MARKET	2005	2006(f)	% Chg	2007(f)	% Chg
MLS® Average Monthly Active Listings	1,352	2,350	73.8%	2,500	6.4%
MLS® Sales	3,196	3,350	4.8%	3,100	-7.5%
Benchmark House Price (3-Bed. Bungalow, July)					
East	$170,000	$170,000	0.0%	$172,500	1.5%
West	$165,000	$165,000	0.0%	$167,500	1.5%
Mount Pearl	$162,000	$162,000	0.0%	$164,500	1.5%
NEW HOME MARKET					
Absorption Rates (Monthly Average)					
Single and Semi-detached	90	85	-5.6%	100	17.6%
Starts	1,534	1,325	-13.6%	1,300	-1.9%
Single	1,096	1,025	-6.5%	975	-4.9%
Multiple	438	300	-31.5%	325	8.3%
Ownership	438	250	-42.9%	260	4.0%
Rental	0	50	N/A	65	30.0%
Average Absorbed New House Price	$196,437	$206,259	5.0%	$212,447	3.0%
RENTAL MARKET					
Vacancy Rate (October)	4.5%	5.0%		5.0%	
Rental Rate (annual % change) 2 bdr	2.6%	3.0%		5.0%	
ECONOMIC OVERVIEW					
Mortgage rate (3 yr. term)	5.59%	N/A		N/A	
Mortgage rate (5 yr. term)	5.99%	N/A		N/A	
Employment growth	1,200	1,154		1,050	
Net Migration	1,706	1,600		1,500	

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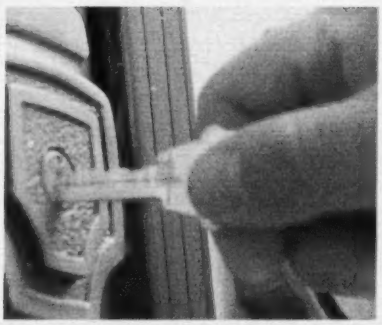

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